Mpofana Municipality
Annual financial statements
for the year ended 30 June 2013

General Information

Members of Council	
Mayor	Cllr S Mpangase
Councillors	Cllr J Shabalala
	Cllr Z Dladla
	Cllr X Duma
	Cllr B Mhlanzi
	Cllr S Mhlongo
	Cllr K Denysschen
Grading of local authority	2
Former Accounting Officer	Mr M A Madlala Resigned: 31 December 2012
Acting Accounting Officer	Mr M Links Appointed: 1 January 2013
Former Chief Finance Officer (CFO)	Miss A P N Ndlovu Resigned: 31 January 2013
Acting Chief Finance Officer (CFO)	Mrs N N Mbatha Appointed: 1 February 2013
Registered office	10 Claughton Terrace Mooi River 3300
Municipal Contact details	033 263 1221/7700
Postal address	P O Box 47 Mooi River 3300
Bankers	First National Bank (Account no.: 53050399907)
Auditors	The Auditor General

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General (SA) is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The annual financial statements set out on page 7 to 47, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by

Acting Accounting Officer

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 7 to 47, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government’s determination in accordance with this Act.

The Accounting Officer is responsible for the presentation and fair presentation of these annual financial statements in accordance with Generally Recognised Accounting Practise (GRAP) in a manner required by local government: Municipal Finance Management Act, 2003 (Act NO. 56 of 2003) including any interpretations,guidelines and directives issued by the Accounting Standards Board.

It is the responsibility of the Accounting Officer to ensure that the Annual Financial Statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

Acting Accounting Officer:
August 30, 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012 Restated
Assets			
Current Assets			
Inventories	8	253,154	44,362
Other receivables	9	619,009	543,845
VAT receivable	10	4,040,334	-
Consumer debtors	11	21,878,881	28,493,297
Financial assets - investments	6	11,952,270	18,274,070
Loans and receivables	7	417,343	330,418
Cash and cash equivalents	12	7,136,949	3,950,119
		46,297,940	**51,636,111**
Non-Current Assets			
Investment property	2	5,335,395	5,335,395
Property, plant and equipment	3	48,026,852	41,656,305
Intangible assets	4	55,908	72,237
		53,418,155	**47,063,937**
Total Assets		**99,716,095**	**98,700,048**
Liabilities			
Current Liabilities			
Finance lease obligation	13	1,533,340	1,227,222
Payables from exchange transactions	17	16,075,589	7,052,971
VAT payable	18	-	887,234
Consumer deposits	19	398,862	396,501
Retirement benefit obligation	5	274,000	274,000
Unspent conditional grants and receipts	14	15,148,450	15,573,732
Provisions	15	10,928,631	10,236,358
Short term portion of long term liabilities	16	140,404	110,215
		44,499,276	**35,758,233**
Non-Current Liabilities			
Finance lease obligation	13	2,265,841	2,894,754
Retirement benefit obligation	5	7,882,000	5,707,000
Annuity loan	16	1,819	151,697
		10,149,660	**8,753,451**
Total Liabilities		**54,648,936**	**44,511,684**
Net Assets		**45,067,159**	**54,188,364**
Net Assets			
Accumulated surplus		45,067,159	54,188,364

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Government grants and subsidies	21	39,689,764	31,348,686
Service charges	22	35,877,621	46,270,031
Property rates	23	8,018,606	7,060,453
Property rates - penalties imposed		2,223,352	2,635,457
Interest revenue	24	7,160,600	2,024,612
Rental income	25	4,586,229	2,484,133
Donations income	26	18,000	434,296
Other income	27	449,362	444,385
Licences and permits		2,739,184	3,872,209
Fines		364,967	364,225
Total revenue		**101,127,685**	**96,938,487**
Expenditure			
Personnel	30	(19,678,068)	(19,351,375)
Remuneration of councillors	31	(2,982,365)	(1,844,294)
Depreciation and amortisation	33	(5,758,064)	(6,111,171)
Reversal of impairments	36	-	1,113,203
Finance costs	35	(1,671,180)	(1,423,881)
Debt impairment	29	(23,875,454)	(16,352,018)
Repairs and maintenance		(1,093,828)	(1,148,018)
Bulk purchases	28	(40,003,139)	(31,380,265)
Contracted services	34	(4,979,826)	(3,621,685)
General expenses	32	(10,206,966)	(11,338,839)
Total expenditure		**(110,248,890)**	**(91,458,343)**
(Deficit)/ surplus for the year		**(9,121,205)**	**5,480,144**
Attributable to:			
Owners of the controlling entity		(9,121,205)	5,480,144

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2011	**54,689,220**	**54,689,220**
Correction of error (refer to note 42)	(5,981,000)	(5,981,000)
Net income (losses) recognised directly in net assets	(5,981,000)	(5,981,000)
Surplus for the year	5,480,144	5,480,144
Total recognised income and expenses for the year	(500,856)	(500,856)
Balance at 01 July 2012 - restated	**54,188,364**	**54,188,364**
Deficit for the year	(9,121,205)	(9,121,205)
Balance at 30 June 2013	**45,067,159**	**45,067,159**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		39,913,473	60,252,554
Grants		39,689,764	31,348,686
Licences and permits		2,739,184	3,872,209
Interest income		692,101	2,024,612
Other receipts		814,329	1,242,906
		83,848,851	98,740,967
Payments			
Employee costs		(22,660,438)	(21,195,669)
Suppliers and other payments		(50,052,159)	(64,482,634)
Finance costs		(1,649,894)	(1,423,881)
		(74,362,491)	(87,102,184)
Net cash flows from operating activities	39	**9,486,360**	**11,638,783**
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,083,382)	(4,611,652)
Purchase of intangible assets	4	(10,900)	-
Decrease/(increase) in financial assets - investments		6,321,800	(678,560)
Increase in loans and receivables		(86,925)	-
Net cash flows from investing activities		**(5,859,407)**	**(5,290,212)**
Cash flows from financing activities			
Repayment of annuity loan		(119,689)	(69,251)
Increase in consumer deposits		2,361	38,973
Decrease in finance lease obligation		(322,795)	(1,087,903)
Net cash flows from financing activities		**(440,123)**	**(1,118,181)**
Net increase/(decrease) in cash and cash equivalents		**3,186,830**	**5,230,390**
Cash and cash equivalents at the beginning of the year		3,950,119	(1,280,271)
Cash and cash equivalents at the end of the year	12	**7,136,949**	**3,950,119**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Appendix A
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	48,178,000	(1,056,000)	**47,122,000**	35,877,621	**(11,244,379)**	
Rental of facilities and equipment	2,490,000	-	**2,490,000**	4,586,229	**2,096,229**	
Licences and permits	3,665,000	-	**3,665,000**	2,739,184	**(925,816)**	
Other income	163,000	-	**163,000**	449,362	**286,362**	
Interest revenue	5,689,000	-	**5,689,000**	7,160,600	**1,471,600**	
Gains on disposal of assets	100,000	-	**100,000**	-	**(100,000)**	
Total revenue from exchange transactions	**60,285,000**	**(1,056,000)**	**59,229,000**	**50,812,996**	**(8,416,004)**	
Revenue from non-exchange transactions						
Property rates	10,771,000	(1,787,000)	**8,984,000**	8,018,606	**(965,394)**	
Property rates - penalties imposed	1,619,000	403,000	**2,022,000**	2,223,352	**201,352**	
Donations income	-	-	**-**	18,000	**18,000**	
Government grants and subsidies	37,680,000	1,077,000	**38,757,000**	39,689,764	**932,764**	
Fines	310,000	-	**310,000**	364,967	**54,967**	
Total revenue from non-exchange transactions	**50,380,000**	**(307,000)**	**50,073,000**	**50,314,689**	**241,689**	
Total revenue	**110,665,000**	**(1,363,000)**	**109,302,000**	**101,127,685**	**(8,174,315)**	
Expenditure						
Personnel	(31,641,000)	1,471,000	**(30,170,000)**	(22,629,559)	**7,540,441**	
Depreciation and amortisation	(6,045,000)	(50,000,000)	**(56,045,000)**	(5,758,064)	**50,286,936**	
Finance costs	(1,214,000)	-	**(1,214,000)**	(1,671,180)	**(457,180)**	
Debt impairment	(9,824,000)	-	**(9,824,000)**	(23,875,454)	**(14,051,454)**	
Repairs and maintenance	(2,341,000)	-	**(2,341,000)**	(1,093,828)	**1,247,172**	
Bulk purchases	(34,501,000)	-	**(34,501,000)**	(40,003,139)	**(5,502,139)**	
Contracted services	(3,792,000)	(1,311,000)	**(5,103,000)**	(4,979,826)	**123,174**	
General expenses	(7,227,000)	(3,722,000)	**(10,949,000)**	(10,237,840)	**711,160**	
Total expenditure	**(96,585,000)**	**(53,562,000)**	**(150,147,000)**	**(110,248,890)**	**39,898,110**	
Operating deficit	**(96,585,000)**	**(53,562,000)**	**(150,147,000)**	**(9,121,205)**	**141,025,795**	
Loss on disposal of assets	(111,000)	-	**(111,000)**	-	**111,000**	
Total expenditure	**(96,696,000)**	**(53,562,000)**	**(150,258,000)**	**(9,121,205)**	**141,136,795**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(96,696,000)**	**(53,562,000)**	**(150,258,000)**	**(9,121,205)**	**141,136,795**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Appendix A
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	253,154	**253,154**	
VAT receivable	-	-	**-**	4,040,334	**4,040,334**	
Other receivables	2,190,000	-	**2,190,000**	619,009	**(1,570,991)**	
Consumer debtors	(25,801,000)	-	**(25,801,000)**	21,878,881	**47,679,881**	
Financial assets - investments	15,120,000	-	**15,120,000**	11,952,270	**(3,167,730)**	
Loans and receivables	-	-	**-**	417,343	**417,343**	
Cash and cash equivalents	-	-	**-**	7,136,949	**7,136,949**	
	(8,491,000)	**-**	**(8,491,000)**	**46,297,940**	**54,788,940**	
Non-Current Assets						
Investment property	5,335,000	-	**5,335,000**	5,335,395	**395**	
Property, plant and equipment	41,900,000	-	**41,900,000**	48,026,852	**6,126,852**	
Intangible assets	-	-	**-**	55,908	**55,908**	
	47,235,000	**-**	**47,235,000**	**53,418,155**	**6,183,155**	
Total Assets	**38,744,000**	**-**	**38,744,000**	**99,716,095**	**60,972,095**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	1,533,340	**1,533,340**	
Payables from exchange transactions	4,126,000	-	**4,126,000**	16,075,589	**11,949,589**	
Consumer deposits	358,000	-	**358,000**	398,862	**40,862**	
Retirement benefit obligation	-	-	**-**	274,000	**274,000**	
Unspent conditional grants and receipts	8,220,000	-	**8,220,000**	15,148,450	**6,928,450**	
Provisions	9,010,000	-	**9,010,000**	10,928,631	**1,918,631**	
Short term portion of long term liabilities	147,000	-	**147,000**	140,404	**(6,596)**	
Bank overdraft	2,811,000	-	**2,811,000**	-	**(2,811,000)**	
	24,672,000	**-**	**24,672,000**	**44,499,276**	**19,827,276**	
Non-Current Liabilities						
Finance lease obligation	4,596,000	-	**4,596,000**	2,265,841	**(2,330,159)**	
Retirement benefit obligation	-	-	**-**	7,882,000	**7,882,000**	
Annuity loan	-	-	**-**	1,819	**1,819**	
	4,596,000	**-**	**4,596,000**	**10,149,660**	**5,553,660**	
Total Liabilities	**29,268,000**	**-**	**29,268,000**	**54,648,936**	**25,380,936**	
Net Assets	**9,476,000**	**-**	**9,476,000**	**45,067,159**	**35,591,159**	
Reserves						
Accumulated surplus	60,176,000	(58,550,000)	**1,626,000**	45,210,642	**43,584,642**	
Total Net Assets	**60,176,000**	**(58,550,000)**	**1,626,000**	**45,210,642**	**43,584,642**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Appendix A
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods, services and other receipts	74,172,000	-	**74,172,000**	43,466,986	**(30,705,014)**	
Grants	37,680,000	-	**37,680,000**	39,689,764	**2,009,764**	
Interest revenue	810,000	-	**810,000**	692,101	**(117,899)**	
	112,662,000	**-**	**112,662,000**	**83,848,851**	**(28,813,149)**	
Payments						
Suppliers, employee costs and other payments	(102,671,000)	-	**(102,671,000)**	(72,712,597)	**29,958,403**	
Finance costs	(413,000)	-	**(413,000)**	(1,649,894)	**(1,236,894)**	
	(103,084,000)	**-**	**(103,084,000)**	**(74,362,491)**	**28,721,509**	
Net cash flows from operating activities	**9,578,000**	**-**	**9,578,000**	**9,486,360**	**(91,640)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(13,432,000)	-	**(13,432,000)**	(12,083,382)	**1,348,618**	
Purchase of intangible assets	-	-	**-**	(10,900)	**(10,900)**	
Decrease in financial assets - investments	2,476,000	-	**2,476,000**	6,321,800	**3,845,800**	
Increase in loans and receivables	-	-	**-**	(86,925)	**(86,925)**	
Net cash flows from investing activities	**(10,956,000)**	**-**	**(10,956,000)**	**(5,859,407)**	**5,096,593**	
Cash flows from financing activities						
Decrease in finance lease obligation	(147,000)	-	**(147,000)**	(322,795)	**(175,795)**	
Increase in consumer deposits	-	-	**-**	2,361	**2,361**	
Repayment of annuity loan	-	-	**-**	(119,689)	**(119,689)**	
Net cash flows from financing activities	**(147,000)**	**-**	**(147,000)**	**(440,123)**	**(175,795)**	
Net increase/(decrease) in cash and cash equivalents	(1,525,000)	-	**(1,525,000)**	3,186,830	**4,829,158**	
Cash and cash equivalents at the beginning of the year	(265,000)	-	**(265,000)**	3,950,119	**4,215,119**	
Cash and cash equivalents at the end of the year	**(1,790,000)**	**-**	**(1,790,000)**	**7,136,949**	**9,044,277**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand, which is the functional currency of the of the municipality and are rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

In the absence of an issued and effective standard of GRAP accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10, and 11 of GRAP 3 as read with Directive 5.

These accounting policies are consistent with the previous period, unless specified otherwise.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting date. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, at weighted average percentage of 15% based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Consumer debtors are expected to be realised within 12 months after the reporting date.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

1.2 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard	Interpretation	Effective date
GRAP 21	Impairment of non-cash-generating assets	01 April 2012
GRAP 23	Revenue from non-exchange transactions	01 April 2012
GRAP 24	Presentation of budget information in the financial statement	01 April 2012
GRAP 26	Impairment of cash-generating assets	01 April 2012
GRAP 103	Heritage assets	01 April 2012
GRAP 104	Financial instruments	01 April 2012

1.2 Standards and interpretations effective and adopted in the current year (continued)

The adoption of the above standards of GRAP did not have a significant impact in the operations of the municipality.

1.3 Standards, amendments to standards and interpretations issued but not yet effective

The municipality will apply all new standards issued by the date stipulated by the Minister of Finance. At year end, the municipality was still determining the extent to which the new standards will impact the accounting of the municipality. The municipality has elected to use these standards to inform the accounting policies that follow.

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment reporting
GRAP 20 Related Party disclosures
GRAP 25 Employee benefits
GRAP 105 Transfer of functions between entities under common control
GRAP 106 Transfer of functions between entities not under common control
GRAP 107 Mergers

The municipality has not applied the above accounting statements and interpretations that have been issued but are not yet effective for the current financial year but have applied their principles in forming the related accounting policies.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Cost includes costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

The cost of items of property, plant and equipment under construction as of the reporting date is recognised as an asset if:
(a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
(b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consist of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Assets under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

Item	**Average useful life**
Buildings	5 - 25 years
Infrastructure	
• Electricity	3 - 30 years
• Roads	3 - 40 years
• Solid Waste disposal	10 years
• Cemeteries	10 - 25 years
Other property, plant and equipment	
• Machinery and equipment	3- 10 years
• Furniture and equipment	3 - 5 years
• Computer equipment	3 - 5 years
• Transport	4 - 5 years
Finance lease assets	
• Office equipment	5 years
• Transport	3 - 5 years
Landfill site	5 years

Accounting Policies

1.5 Property, plant and equipment (continued)

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

The municipality has a landfill site which it is obligated to rehabilitate at the end of its useful life.

1.7 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

1.7 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	2 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.8 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments. Financial instruments are initially recognised at fair value.

Transaction costs are included in the initial measurement of the instrument.

1.8 Financial instruments (continued)

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Loans to employees

These financial assets are classified as loans and receivables.

Receivables from exchange transactions

Trade and other receivables are classified as loans and receivables.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. An estimate is made for doubtful receivables based on a review of all outstanding amounts at reporting date. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to surplus or deficit.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

The municipality classifies cash and cash equivalents as loans and receivables. Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially recorded at fair value and subsequently recorded at amortised cost as a loan receivable.

Investments

The municipality has investments that comprise of call accounts and money market investment accounts. These are treated as loans and receivables and are initially recorded at fair value and subsequently recorded at amortised cost.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

1.8 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each reporting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

1.9 Leases (continued)

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Any contingent rents are expensed in the period in which they are incurred.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets and non-cash generating assets

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

The municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount).

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the municipality evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets the value in use is determined as a function of the discounted future cash flows from the asset.

- Depreciated replacement cost approach – The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach - Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the statement of financial performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the municipality makes an estimate of the assets or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

Accounting Policies

1.13 Employee benefits

Short-term employee benefits

Short term employee benefits encompasses all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences and bonuses.

Short term employee benefits are recognised in the statement of financial performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Retirement benefits

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

The municipality contributes to the Municipal Pension Fund, which is classified as a defined contribution plan. Contributions made towards the fund are recognised as an expense in the statement of financial performance in the period that such contributions becomes payables. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the financial period end.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the relevant notes to the financial statements.

1.15 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at statement of financial position date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:
- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

1.16 Revenue from non-exchange transactions (continued)

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

When government remits grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.17 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.18 Commitments

Commitments are not recognised. Commitments are disclosed in the notes to the annual financial statement. A commitment is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Accounting Policies

1.20 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Presentation currency

These annual financial statements are presented in South African Rand.

1.24 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.25 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the statement of financial performance.

1.26 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

1.27 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the municipality any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the municipality's legal mandate; further details about those transactions are disclosed in the notes to the financial statements.

1.28 Going concern assumption

The financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

Accounting Policies

1.29 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

2. Investment property

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property - land	5,335,395	-	5,335,395	5,335,395	-	5,335,395

Reconciliation of investment property - 2013

	Opening balance	**Closing balance**
Investment property - land	5,335,395	5,335,395

Reconciliation of investment property - 2012

	Opening balance	**Closing balance**
Investment property - land	5,335,395	5,335,395
Fair value of investment property	17,286,400	17,286,400

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 01 January 2012. Valuations were performed by an municipal valuer, Mr Alan Robert Stephenson (South African Council for the Property Valuers Profession), of Mills Fitchet.

The municipality performs valuation of investment property on a four year cycle basis. No valuation was therefore performed for the 2012/13 financial period.

3. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	3,322,286	-	3,322,286	3,322,286	-	3,322,286
Buildings	6,406,377	(4,707,211)	1,699,166	6,406,377	(4,397,577)	2,008,800
Infrastructure	66,979,324	(43,778,751)	23,200,573	66,979,324	(41,227,907)	25,751,417
Other property, plant and equipment	6,587,792	(4,848,802)	1,738,990	6,253,348	(4,250,402)	2,002,946
Capital work in progress	12,595,583	-	12,595,583	1,907,091	-	1,907,091
Finance lease assets	7,070,190	(3,474,052)	3,596,138	5,991,744	(2,137,525)	3,854,219
Landfill site	7,031,082	(5,156,966)	1,874,116	7,031,082	(4,221,536)	2,809,546
Total	**109,992,634**	**(61,965,782)**	**48,026,852**	**97,891,252**	**(56,234,947)**	**41,656,305**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Depreciation**	**Closing balance**
Land	3,322,286	-	-	3,322,286
Buildings	2,008,800	-	(309,634)	1,699,166
Infrastructure	25,751,417	-	(2,550,844)	23,200,573
Other property, plant and equipment	2,002,946	334,444	(598,400)	1,738,990
Capital work in progress	1,907,091	10,688,492	-	12,595,583
Finance lease assets	3,854,219	1,078,446	(1,336,527)	3,596,138
Landfill site	2,809,546	-	(935,430)	1,874,116
	41,656,305	**12,101,382**	**(5,730,835)**	**48,026,852**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Closing balance
Land	3,322,286	-	-	-	-	-	3,322,286
Buildings	2,046,742	108,380	68,550	70,022	(325,532)	40,638	2,008,800
Infrastructure	22,553,126	-	4,662,383	495	(2,541,708)	1,077,121	25,751,417
Other property, plant and equipment	2,352,885	339,976	-	-	(685,359)	(4,556)	2,002,946
Capital work in progress	2,514,377	4,123,647	(4,730,933)	-	-	-	1,907,091
Finance lease assets	4,967,457	-	-	-	(1,113,238)	-	3,854,219
Landfill site	4,218,650	-	-	-	(1,409,104)	-	2,809,546
	41,975,523	**4,572,003**	**-**	**70,517**	**(6,074,941)**	**1,113,203**	**41,656,305**

4. Intangible assets

	2013			2012		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	205,832	(149,924)	55,908	194,932	(122,695)	72,237

Reconciliation of intangible assets - 2013

	Opening balance	**Additions**	**Amortisation**	**Closing balance**
Computer software	72,237	10,900	(27,229)	55,908

Reconciliation of intangible assets - 2012

	Opening balance	**Amortisation**	**Closing balance**
Computer software	108,466	(36,229)	72,237

5. Employee benefit obligations

Defined benefit plan

The Council operates a defined medical aid benefit scheme for the benefit of its qualifying employees.

Post-retirement medical aid benefits are offered to qualifying employees by subsidising a portion of the medical aid contribution after retirement.

The municipality is committed to pay subsidies broadly as follows:
- 60% to current employees
- 60%/100% to current continuation retirees
- Widow(er)s and orphans of current employees are entitled to continue at 60% or 100%, the subsidy upon the death of the pensioner.

The most recent actuarial valuation was performed on 30 June 2013 by One Pangaea Financial using Projected Unit Credit Method.

The full liability has been recognised as at the date of the statement of financial position.

The amount recognised in the statement of financial position are as follows:

	2013	2012
Carrying value		
Opening balance	(5,981,000)	-
Current service cost	(314,000)	-
Interest cost	(482,000)	-
Benefit payments	274,000	-
Actuarial gains/(losses)	(1,653,000)	-
	(8,156,000)	**(5,981,000)**

	2013	2012
No-current liabilities	(7,882,000)	(5,707,000)
Current liabilities	(274,000)	(274,000)
	(8,156,000)	**(5,981,000)**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

5. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	314,000	-
Interest cost	482,000	-
Actuarial losses	1,653,000	-
Curtailment or settlement	(274,000)	-
	2,175,000	**-**

The municipality became aware of this post retirement medical aid obligation in the current year. It was previously not recognised. Refer note 42.

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.25%	8.25%
Health care cost inflation rate	6.75%	6.75%
Consumer price index	6.25%	6.00%
Salary increase rate	7.15%	6.90%
Net effective discount rate	0.47%	1.41%

Retirement age		
Female	63	-
Male	63	-
Number of eligible members	66	-
Number of pensioners	9	-

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	1,431,000	872,000
Effect on defined benefit obligation	9,867,000	6,849,000
	11,298,000	**7,721,000**

Defined contribution plan

Certain municipal councillors and employees belong to The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

These schemes cannot be broken down per municipality, as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality. Information from the schemes as a whole is included below.

Municipal employees are also members of the KwaZulu Natal Joint Municipal Provident Fund, South African Local Authorities (SALA) Provident and Retirement Funds. All contributions have been included in the employee related cost note.

Notes to the Annual Financial Statements

5. Employee benefit obligations (continued)

SUPERANNUATION FUND

As at 31 March 2012 (the last date of valuation), the actuarial value of total assets was R 121,7 million more than the actuarial value of liabilities for service of members to that date and for pensioners, made up as follows:

- Surplus of R 210 million in respect of pensioners (funding level 119,4%)
- Deficit of R 88,3 million in respect of members (funding level 95%)
- The fund was thus 104% funded
- The fund did not hold an investment reserve
- The total contribution rate payable,including the surcharge by and on behalf of members,exceeded that required for future service by 1,41 % of members pensionable emoluments
- An additional contribution by way of a surcharge amounting to 6% of salaries is currently in place to fund the deficit. The surcharge will reduce to 4,5% with effect from 1 July 2007

RETIREMENT FUND

As at 31 March 2012 (the last date of valuation), the actuarial value of total assets was R 140,9 million more that the actuarial value of liabilities for services of members to that date and for pensioners made up as follows:
- Surplus of R 63,4 million in respect of pensioners (funding level 116,2%)
- Deficit of R204,3 million in respect of members (funding level 73%)
- The fund was thus 87,7% funded
- The fund did not hold an investment reserve
- The total contribution rate payable (including the surcharge of 14 % payable jointly by pre-1 July 2002 members and their employers on their behalf) exceeded that required for future service by 12,59% of members' pensionable emoluments. This should be sufficient to eliminate the deficit by 2010, provided that salary increases do not exceed CPIX plus 0,5 %.

6. Financial assets - Investments

	2013	2012
Call investments		
FNB Investment call account - 62172498183	218,988	211,538
ABSA and Transitional grant	2,166,674	1,578,184
Housing project grant - 62187203957	7,091,105	6,851,862
Housing project grant: Craigburg -62141712001	431,047	6,262,161
Municipal housing account - 62237621760	2,024,182	3,206,568
Midlands development agency	20,274	163,757
	11,952,270	**18,274,070**

Midlands Development Agency

The municipality is part of the development agency established between uMngeni Municipality, Mpofana and uMtshezi Municipalities. The Agency is funded by the IDC and a bank account is held in the name of uMngeni Municipality, until the Board is appointed to take control of the affairs of the agency.

The bank balance was R 60 823.06 as at 30 June 2013 (2012: R491 269.90) held at ABSA Bank LTD. The Municipality has recognised one third of the bank balance as an investment.

7. Loans and receivables

	2013	2012
Current assets		
Loans and receivables	417,343	330,418

Loans and receivables relate to loan agreements which were entered into between the municipality and the Development Bank of Southern Africa (DBSA) for the water and sanitation scheme. This function was transferred to uMgungundlovu District Municipality but the DBSA loan agreements could not be ceded to uMgungundlovu District Municipality. The above receivable represents repayments previously made to DBSA, which are recoverable from uMgungundlovu District Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

8. Inventories

Consumable stores	253,154	44,362

Inventory is stated at the lower of cost or current replacement value.

9. Other receivables

Sundry debtors	619,009	543,845

Sundry debtors relate to the following:

- Salary overpayment made to the former Deputy Mayor and the municipality is in the process of recovering this overpayment; and
- Payment for Eskom pumps by the municipality on behalf of uMgungundlovu District Municipality.

10. VAT receivable

VAT refund receivable	4,040,334	-

11. Consumer debtors

Gross balances		
Rates	30,540,558	24,233,042
Electricity	10,025,025	58,745,125
Refuse	7,548,818	4,388,467
Sundry debtors	7,931,467	5,681,344
	56,045,868	**93,047,978**
Less: Provision for doubtful debts		
Rates	22,903,233	15,832,008
Electricity	5,236,529	41,863,932
Refuse	6,027,225	3,116,466
Sundry debtors	-	3,742,275
	34,166,987	**64,554,681**
Net balance		
Rates	7,637,325	8,401,034
Electricity	4,788,496	16,881,193
Refuse	1,521,593	1,272,001
Sundry debtors	7,931,467	1,939,069
	21,878,881	**28,493,297**
Rates		
Current (0 -30 days)	1,397,768	590,720
31 - 60 days	515,419	257,279
61 days and older	5,724,138	7,553,035
	7,637,325	**8,401,034**
Electricity		
Current (0 -30 days)	3,749,510	3,207,249
31 - 60 days	236,560	1,141,969
61 days and older	802,426	12,531,975
	4,788,496	**16,881,193**

Figures in Rand	2013	2012

11. Consumer debtors (continued)

Refuse		
Current (0 -30 days)	402,007	188,664
31 - 60 days	182,969	78,822
61 days and older	936,617	1,004,516
	1,521,593	**1,272,002**

Sundry debtors		
Current (0 -30 days)	151,071	71,827
31 - 60 days	75,255	37,273
61 days and older	7,705,141	1,829,969
	7,931,467	**1,939,069**

Reconciliation of allowance for impairment		
Balance at beginning of the year	64,554,681	52,670,393
Contributions to allowance	34,166,987	64,554,681
Reversal of allowance	(64,554,681)	(52,670,393)
	34,166,987	**64,554,681**

Indigent consumers

The municipality provided free basic refuse removal to its 782 (2012: 548) indigent customers which amounted to R5 885 662 (2012: R328 800) in cost.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2013, R 16,178,323 (2012: R 24,434,837) were past due but not impaired and are considered to fully recoverable.

The ageing of amounts past due but not impaired is as follows:

1 month and over, past due	16,178,323	24,434,837

Consumer debtors impaired

As of 30 June 2013, consumer debtors of R 34,166,987 (2012: R 64,554,681) were impaired and provided for.

The ageing of these debtors is as follows:

3 months and over	34,166,987	64,554,681

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	800	800
Bank balances	7,136,149	3,949,319
	7,136,949	**3,950,119**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

13. Finance lease obligation

Minimum lease payments due		
- within one year	1,914,977	1,658,501
- in second to fifth year inclusive	2,707,249	3,345,243
	4,622,226	5,003,744
less: future finance charges	(823,045)	(881,768)
Present value of minimum lease payments	**3,799,181**	**4,121,976**
Present value of minimum lease payments due		
- within one year	1,533,340	1,227,222
- in second to fifth year inclusive	2,265,841	2,894,754
	3,799,181	**4,121,976**

The average lease term is 5 years. Interest rates are linked to prime for printers and prime less 2% for motor vehicles, at the contract date. Contingent rents have been recognised as an expense in the statement of financial performance.

The leased assets are indicated in Note 3.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Municipal assistance grant	565,256	966,738
Townview housing project grant	8,168,481	8,168,481
Cragieburn housing project grant	5,955,679	6,260,824
Expanded Public Works Programme grant	161,713	-
Municipal infrastructure grant	-	177,689
Small town grant	297,321	-
	15,148,450	**15,573,732**

Municipal assistance grant		
Balance unspent at the beginning of the year	966,738	638,791
Current year receipts	-	1,025,000
Conditions met - transferred to revenue	(401,482)	(697,053)
	565,256	**966,738**
Townview housing project grant		
Balance unspent at the beginning of the year	8,168,481	8,168,481
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
	8,168,481	**8,168,481**
Cragieburn housing project grant		
Balance unspent at the beginning of the year	6,260,824	6,597,356
Current year receipts	1,006,482	-
Conditions met - transferred to revenue	(1,311,627)	(336,532)
	5,955,679	**6,260,824**
Finance management grant		
Balance unspent at the beginning of the year	-	-
Current year receipts	1,500,000	1,500,000
Conditions met - transferred to revenue	(1,500,000)	(1,500,000)
	-	**-**

Figures in Rand	2013	2012

14. Unspent conditional grants and receipts (continued)

Electricity grant

	2013	2012
Balance unspent at the beginning of the year	-	2,057,836
Current year receipts	-	-
Conditions met - transferred to revenue	-	(2,057,836)
	-	**-**

Municipal systems improvement grant

	2013	2012
Balance unspent at the beginning of the year	-	-
Current year receipts	800,000	790,000
Conditions met - transferred to revenue	(800,000)	(790,000)
	-	**-**

Municipal infrastructure grant

	2013	2012
Balance unspent at the beginning of the year	177,689	-
Current year receipts	11,728,000	9,668,000
Conditions met - transferred to revenue	(11,905,689)	(9,490,311)
	-	**177,689**

Expanded Public Works Programme grant

	2013	2012
Balance unspent at the beginning of the year	-	-
Current year receipts	1,000,000	-
Conditions met - transferred to revenue	(838,287)	-
	161,713	**-**

Small town grant

	2013	2012
Balance unspent at the beginning of the year	-	-
Current year receipts	600,000	-
Conditions met - transferred to revenue	(302,679)	-
	297,321	**-**

Municipal assistance grant
This grant was provided to Mpofana municipality from Cooperative Governance and Traditional Affairs (CoGTA) to assist the municipality with governance issues.

Townview housing project grant
This was a tranche allocation by the Department of Human Settlement for the construction of low cost housing in the Townview area, in prior years. The project was abandoned due to the low standards as per the Department of Human Settlement. A rehabilitation project was embarked on by the Provincial Department, leaving the unspent portion with the municipality. The municipality has applied to use the funds for the construction of roads and the Phumlaas housing project. The municipality is awaiting the Department of Human Settlement's response regarding the application.

Cragieburn housing project grant
This grant will be used for the construction of low cost housing in the Cragieburn area. It is currently in tranche 2 of approval.

Finance management grant (FMG)
The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist building strong financial management skills.

Electricity grant
This grant was used for the rehabilitation and the refurbishment of the electricity infrastructure to support sustained supply and to increase distribution capacity.

Municipal systems improvement grant (MSIG)
This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills.

Figures in Rand	2013	2012

14. Unspent conditional grants and receipts (continued)

Municipal Infrastructure Grant (MIG)
This grant is used for capital infrastructure additions. The municipality has utilised the grant to build roads.

15. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Closing balance
Provision for landfill site	8,507,609	723,147	-	9,230,756
Provision for leave pay	1,728,749	1,102,617	(1,133,491)	1,697,875
	10,236,358	**1,825,764**	**(1,133,491)**	**10,928,631**

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Closing balance
Provision for landfill site	7,734,190	773,419	-	8,507,609
Provision for leave pay	1,522,805	506,253	(300,309)	1,728,749
Provision for damaged vehicles	7,570	-	(7,570)	-
	9,264,565	**1,279,672**	**(307,879)**	**10,236,358**

Landfill site
The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life. This is expected to be paid by 30 June 2015.

A discounting factor based on prime interest and adjustment for municipal specific risk was applied.

Leave pay
The leave pay provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

16. Annuity loan

	2013	2012
Annuity Loans		
DBSA Loans	142,223	261,912
Less: Current portion transferred to current liabilities	(140,404)	(110,215)
Long term portion	**1,819**	**151,697**

The municipality received five loans from the Development Bank of Southern Africa (DBSA) to fund water, electricity and sewerage expenditure.The terms of the loans vary between forty to sixty years. Each loan has a fixed interest rate however, all loans have different fixed interest rates. Interest rates are between 14,50% to 16,32% per annum, payable every six months.

Three of the five loans received were recoverable from uMgungundlovu District Municipality as the water and sanitation function was ceded to the District Municipality. Refer to the loans and receivables note 7.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

17. Payables from exchange transactions

Trade payables	127,567	-
Accruals - Eskom bulk purchases	4,627,066	3,615,312
Accruals - other	4,544,854	1,426,780
Debtor payments received in advance	5,173,466	1,405,498
Accruals - uMgungundlovu District Municipality	605,385	605,385
Unallocated receipts	997,251	-
	16,075,589	**7,052,975**

Trade payables are normally settled within 30 days.

18. VAT payable

VAT payable	-	887,234

19. Consumer deposits

Electricity	221,574	219,469
Water	145,737	145,987
Other	31,551	31,045
	398,862	**396,501**

Interest is not paid to consumers when deposits are refunded and hence it is not accrued on consumer deposits value.

20. Revenue

Service charges (refer note 22)	35,877,621	46,270,031
Government grants and subsidies	39,689,764	31,348,686
Property rates	8,018,606	7,060,453
Property rates - penalties imposed	2,223,352	2,635,457
Interest revenue	7,160,600	2,024,612
Rental of facilities and equipment	4,586,229	2,484,133
Licences and permits	2,739,184	3,872,209
Other income	449,362	444,385
Fines	364,967	364,225
Donations income	18,000	434,296
	101,127,685	**96,938,487**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	35,877,621	46,270,031
Interest revenue	7,160,600	2,024,612
Rental of facilities and equipment	4,586,229	2,484,133
Licences and permits	2,739,184	3,872,209
Other income	449,362	444,385
	50,812,996	**55,095,370**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

20. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Government grants and subsidies	39,689,764	31,348,686
Property rates	8,018,606	7,060,453
Property rates - penalties imposed	2,223,352	2,635,457
Donations income	364,967	364,225
Royalties received	18,000	434,296
	50,314,689	**41,843,117**

21. Government grants and subsidies included in revenue

Operating grants		
Equitable share	21,925,000	17,761,836
Public health subsidy	-	489,000
Museum grant	134,000	194,299
Small town grant	302,679	-
Municipal assistance grant	401,482	697,053
Municipal system improvement grant (MSIG)	800,000	790,000
Finance management grant (FMG)	1,500,000	1,500,000
Department of trade and industry (DTI) subsidy	-	89,654
Expanded public works programme grant	838,287	-
Provincial library subsidy	150,000	-
Library subsidy	336,000	-
Sports and recreation subsidy	85,000	-
	26,472,448	21,521,842
Capital grants		
Municipal infrastructure grant (MIG)	11,905,689	9,490,311
Cragieburn housing project grant	1,311,627	336,533
	13,217,316	9,826,844
	39,689,764	**31,348,686**

Equitable share
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Museum subsidy
This subsidy has been granted to the municipality for operational upkeep of the museum in the area.

Public health subsidy
This subsidy was granted to the municipality by the Department of Public health for the operational costs of running the clinic.

Municipal infrastructure grant (MIG)
This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.

Expanded public works programme (EPWP)
This subsidy is provided by the Department of Public Works to assist with the alleviation of poverty in the municipal area by providing temporary employment for the unemployed.

Small town grant
This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perform feasibility studies with a view of developing the town by improving its economic state and attracting investment.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

22. Service charges

Sale of electricity	33,381,440	43,872,159
Refuse removal	2,496,181	2,397,872
	35,877,621	**46,270,031**

23. Property rates

Residential	4,575,194	1,954,844
Agriculture	2,173,836	2,895,090
State	1,216,172	22,485
Municipal	53,404	1,092,505
	8,018,606	**5,964,924**

Valuations on land and buildings are performed every four years. The last valuation was performed on July 01, 2012.
The following general rates are applied:

-Residential	R2.5700	R1.2826
-Agricultural	R0.2700	R0.3000
-Commercial	R1.2800	R1.5900
-Public Service Infrastructure	R0.3167	R0.3000
-Public Benefit Organisation	R0.6121	RNil

Rebates of 30% were granted to rates on residential properties, 55% on agricultural properties, 30% on public service infrastructure and 20% on public benefit organisation. In the 2011/2012 year rebates of 30% were granted to rates on residential, 55% agricultural properties.

Rates are levied on a monthly basis.

Rates are levied on the following properties as per the valuation roll:

Property valuations

Agricultural	1,822,916,000	1,187,766,000
Agricultural smallholding	103,950,000	335,268,000
State	90,780,000	257,191,100
Industrial	2,100,000	1,525,000
Communal property and land reform	70,820,000	-
Municipal	9,284,000	6,771,000
Public service infrastructure	27,023,200	6,424,530
Residential and Residential hospitality	755,903,900	400,105,700
Sectional title - Commercial	2,200,000	1,300,000
Sectional title - Residential	6,580,000	6,250,000
State owned	28,856,000	511,000
Place of worship	23,550,000	7,000,000
Public benefit organisation	148,460,000	-
Business and commercial	194,049,000	-
Tourism and hospitality	154,335,000	-
	3,440,807,100	**2,210,112,330**

24. Interest revenue

Interest revenue		
Interest on investments	615,333	730,945
Interest charged on consumer debtors	6,468,499	1,275,119
Interest received - other	76,768	18,548
	7,160,600	**2,024,612**

Figures in Rand	2013	2012

25. Rental income

Premises		
Premises	239,357	324,344
Venue hire	38,084	25,200
	277,441	**349,544**
Facilities and equipment		
Rental of equipment	4,308,788	2,134,589
	4,586,229	**2,484,133**

26. Donations income

Donations income	18,000	434,296

300 black chairs to the value of R18 000 were donated by SASSA Regional office to the municipality during the current financial year.

27. Other income

Other income	402,311	421,385
Cemetery fee income	47,051	23,000
	449,362	**444,385**

28. Bulk purchases

Electricity	40,003,139	31,380,265

29. Debt impairment

Adjustments to bad-debt provision	(30,387,693)	1,073,138
Bad debts written off	54,263,147	15,278,880
	23,875,454	**16,352,018**

30. Employee related costs

Basic	11,091,252	10,983,198
Bonus	887,765	738,343
Casual salaries	609,462	-
Housing benefits and allowances	213,681	51,377
Leave pay provision charge	(30,874)	-
Medical aid - company contributions	1,076,966	1,010,430
Other allowances	112,614	1,315,291
Other payroll levies	8,016	3,176
Overtime payments	1,112,382	1,149,665
Post-employment benefits	2,793,487	2,574,339
Redemption leave	319,840	-
Skills development levy	175,044	74,574
Transport allowance	1,145,946	1,260,909
Unemployment insurance fund	131,613	190,073
	19,647,194	**19,351,375**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

30. Employee related costs (continued)

Remuneration of municipal manager

Annual Remuneration	335,265	409,636
Car, travel, accommodation allowance and other	167,342	329,224
	502,607	**738,860**

Remuneration of chief finance officer

Annual Remuneration	291,164	358,444
Car, travel, accommodation allowance and other	110,102	294,186
	401,266	**652,630**

Remuneration of Director Corporate Services

Annual Remuneration	348,899	293,055
Car, travel, accommodation allowance and other	241,000	222,309
	589,899	**515,364**

Remuneration of Director Technical Services

Annual Remuneration	204,806	272,694
Car, travel, accommodation allowance and other	160,655	236,735
Acting allowance	43,690	-
	409,151	**509,429**

Remuneration of Director Social Services

Annual Remuneration	204,806	105,801
Car, travel, accommodation allowance and other	117,543	96,591
	322,349	**202,392**

Remuneration Acting Chief Financial Officer

Annual Remuneration	-	-
Travel allowance	21,500	-
	21,500	**-**

31. Remuneration of councillors

Mayor	458,358	664,727
Councillors	791,379	603,033
Councillors’ pension and medical aid contributions	128,376	75,929
Councillor's allowances	1,604,252	500,605
	2,982,365	**1,844,294**

In-kind benefits

The Mayor is employed on a full-time basis. The Mayor is provided with an office and secretarial support at the cost of the Council. The Mayor has use of a Council owned vehicle for official duties. The Mayor has a full-time bodyguard.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

32. General expenses

Advertising	108,657	194,335
Auditors remuneration	843,359	763,906
Bank charges	115,940	111,054
Cleaning	8,381	13,182
Computer expenses	103,362	490,332
Conferences and seminars	33,083	106,817
Consumables	2,400	12,617
Contingent rentals	-	108,851
Discount allowed	10,206	10,414
Entertainment	19,850	36,668
Fuel and oil	506,705	734,120
Insurance	10,000	537,985
Inventory write off	31,427	2,445
Legal expenses	122,357	566,896
Machine hire	61,250	113,727
Magazines, books and periodicals	11,308	42,203
Motor vehicle expenses	26,059	35,363
Other general expenses	1,538,297	1,185,977
Pauper burials	11,318	9,980
Pest control	311,309	-
Postage and stamps	49,738	60,649
Printing and stationery	188,672	977,256
Promotions	32,769	28,888
Rental general	134,273	754,207
Security	1,497,756	1,141,712
Service connections	265,757	525,818
Subscriptions and membership fees	1,013	921
Summons costs	-	24,762
Sundry expenses	3,023,520	584,044
Team building workshops	18,458	7,915
Telephone and fax	417,579	737,830
Tourism development	-	2,504
Training	46,865	31,818
Travel - local	22,142	34,073
Uniforms	74,783	67,039
Valuation expenses	205,234	1,282,531
Venue expense	32,500	-
Water and electricity	320,639	-
	10,206,966	**11,338,839**

33. Depreciation and amortisation

Property, plant and equipment	5,730,835	6,074,942
Intangible assets	27,229	36,229
	5,758,064	**6,111,171**

34. Contracted services

Specialist services	4,979,826	3,621,685

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

35. Finance costs

Provision for landfill site (unwinding)	723,147	773,419
Interest on finance leases	529,022	570,260
Interest on bank overdraft	24,408	55,157
Interest on non-current borrowings	31,180	25,045
Interest on overdue accounts	363,423	-
	1,671,180	**1,423,881**

36. Impairment of assets

Impairments		
Property, plant and equipment	-	(1,113,203)

Impairment losses are calculated based on the result of a physical verification conducted during which a condition assessment is performed. No impairment losses were recognised in the current financial year.

37. Auditors' remuneration

Fees	843,359	763,906

38. Operating lease

The municipality had the following outstanding commitments under operating leases in the prior year:

Operating leases - lessee		
Within one year	-	175,739
In the second to fifth year	-	330,502
	-	**506,241**

The operating lease payments represented rentals payable by the municipality for certain of its fleet vehicles, and clinic.

Operating leases - lessor
The municipality has low cost houses that are leased to certain staff/members. Lease rentals are based on a percentage of the lessee's income levels. These leases are cancellable at any time by either party provided that one month's notice is given. There is no fixed lease period.

39. Cash generated from operations

(Deficit) surplus	(9,121,205)	5,480,144
Adjustments for:		
Depreciation and amortisation	5,758,064	6,111,171
Reversal of impairment	-	(1,113,203)
Increase in retirement benefit obligation	2,175,000	5,981,000
Movements in provisions	692,273	971,793
In-kind donations	(18,000)	-
Changes in working capital:		
(Increase)/ decrease in inventories	(208,792)	61,149
Increase in other receivables	(75,164)	(240,904)
Decrease in consumer debtors	6,614,416	1,802,480
Decrease in prepayments	-	834,301
Movement in VAT	(4,927,568)	1,535,675
Increase/(decrease) in payables from exchange transactions	9,022,618	(1,915,092)
Decrease in government grants	(425,282)	(1,888,731)
Correction of prior period error	-	(5,981,000)
	9,486,360	**11,638,783**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

40. Commitments

Authorised capital expenditure

Approved and contracted for		
• Phumlaas Bus / Taxi Route	5,760,032	9,737,246
• Bruntville Clinic Bus / Taxi Route	656,600	7,859,299
	6,416,632	**17,596,545**

41. Contingencies

There are no contingencies during the current year.

The following were disputes as at 30 June 2012:

Sala Pension Fund	-	59,700

The Sala Pension Fund sued the municipality for subscription fees. This matter has been resolved.

42. Prior period errors

The municipality became aware of the post retirement medical aid obligation which was not previously recognised.

The recognition of the above obligation has the following effect on the previously reported prior year amounts

<u>**2012**</u>

Statement of financial position		
Retirement benefit obligation	-	(5,981,000)
Statement of changes in net assets		
Accumulated surplus	-	5,981,000

43. Events after the reporting date

At the time of completion of the annual financial statements, there were no events after the reporting date affecting these annual financial statements.

44. Unauthorised expenditure

At the time of completion of the annual financial statements, there was no unauthorised expenditure.

45. Fruitless and wasteful expenditure

Penalty interest	363,423	36,174
To be condoned	(363,423)	(36,174)
	-	-

Interest and penalty charges were levied for the late payment of Eskom invoices for electricity bulk purchases.

46. Irregular expenditure

At the time of completion of the annual financial statements no irregular expenditure had been incurred.

47. In-kind donations and assistance

300 black chairs to the value of R18 000 were donated by SASSA Regional office to the municipality during the current financial year.

Figures in Rand	2013	2012

48. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Various items were procured during the financial year under review and process followed in procuring those goods deviated from the provisions of paragraph 12 (1)(d)(1) as stated above. The reasons for the deviations were documented and reported to the Accounting Officer which considered them and subsequently approved the deviation from the normal supply chain management regulation. The main reasons for deviations were mainly sole supplier deviation, emergency cases and target market related. From a total expenditure of R 110 105 407, deviations were R 694 875 being 0,63% of expenditure.

49. Risk management

Maximum credit risk exposure

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective financial assets - investments, trade and other receivables and the cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk.

Cash and cash equivalents	7,136,949	3,950,119
Financial assets - investments	11,952,270	18,274,070
Consumer debtors	21,878,882	28,493,297
Maximum credit exposure	**40,968,101**	**50,717,486**

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality financial liabilities into amounts due within the 12 months after:

Payables from exchange transactions	16,474,452	7,052,971
Finance lease obligation	1,533,340	1,227,222
Short term portion of long term liabilities	140,404	110,215
	18,148,196	**8,390,408**

49. Risk management (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits
- Long-term debtors

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of financial assets - investments. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows:

	Effect on profit before tax	
2013	**1% increase**	**2% decrease**
Financial assets - investment	120,960	(241,915)
Cash and cash equivalent	71,369	(142,739)
Consumer debtors	218,787	(437,574)
Annuity loan	(1,422)	2,844
2012	**2% increase**	**2% decrease**
Financial assets - investment	365,481	(365,481)
Cash and cash equivalent	79,002	(79,002)
Consumer debtors	569,866	(569,866)
Annuity loan	(5,238)	5,238

50. Electricity losses

Electricity units (kWh) lost in distribution		
Electricity units (kWh) purchased from Eskom	59,789,898	59,930,776
Electricity units (kWh) sold from Eskom	(44,596,560)	(44,887,877)
	15,193,338	**15,042,899**

Electricity losses for the financial year is 18.4% (2012: 24%). The Rand value of the electricity losses for the current financial year is R6 874 000 (2012: R8,353,601).

These losses are attributable to electricity line losses within the electricity network infrastructure.

51. Councillor arrears on consumer accounts

No current councillor has arrears on his services account.